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FEDERAL COMMUNICATIONS COMMISSION
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Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of	)	
	)	CC Docket No. 95-72
End User Common Line	)	
Charges	)	

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COMMENTS OF AT&T CORP.

Mark C. Rosenblum
Peter H. Jacoby
Seth S. Gross

Room 3244J1
295 North Maple Avenue
Basking Ridge, New Jersey 07920
(908) 221-3539

Attorneys for AT&T Corp.

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SUMMARY

The Commission seeks comment on a number of options for applying SLCs to local loops used with ISDN and other services that permit the provision of multiple voice-grade-equivalent channels to a customer over a single facility. AT&T supports the Commission's goals of promoting the use of new derived channel technologies, such as ISDN, and maintaining CCL rates at or below current levels. However, none of the three primary options -- a SLC per-facility; a SLC per-derived channel; or an option that would assess SLCs at a level between the per-facility and per-derived channel approaches -- meets both goals. Therefore, AT&T proposes an option that is better calculated to achieve those objectives.

Specifically, AT&T proposes that the Commission impose a per-facility SLC for residential and single-line business ISDN BRI service users, and a per-derived channel charge for PRI service users. Charging one SLC per BRI facility will encourage residential and single-line business users to try new derived channel technology. This approach will also maintain or reduce current CCL rates by charging PRI users on a per-derived channel basis and by increasing the SLC on residential and single-business line users by $.25 per facility per

month. The $.25 per facility rate increase will help offset the potential reduction in SLC revenues from a BRI per-facility approach.

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COMMENTS OF AT&T CORP.

Pursuant to the Notice of Proposed Rulemaking released on May 30, 1995 ("NPRM"), AT&T Corp. ("AT&T") submits these comments on applying Subscriber Line Charges ("SLCs") to local loops used with Integrated Services Digital Network ("ISDN") and other services that permit the provision of multiple voice-grade-equivalent channels to a customer over a single facility.

AT&T supports the implementation of new technologies, such as ISDN, to benefit consumers through the advancement of the National Information Infrastructure ("NII"). As AT&T shows below, a combination of a per-derived channel and per-facility charge will best meet the Commission's twin goals of promoting the use of new technologies and avoiding measures that could reduce the level of non-traffic sensitive local loop costs now recovered through flat charges.

FACTUAL BACKGROUND

ISDN technology, which permits digital transmission over ordinary local loops and T-1 facilities, is currently offered in two basic types by local exchange carriers ("LECs"): Basic Rate Interface ("BRI") service, which allows a subscriber to obtain two voice-grade-equivalent channels and a signaling/data channel over an ordinary local loop, and Primary Rate Interface ("PRI") service, which allows subscribers to obtain 23 voice-grade-equivalent channels and one data channel over a single T-1 facility.

BRI allows small businesses and residential customers to use voice service or access a database service, and send a facsimile over a single local loop. PRI, on the other hand, provides digital service to larger business customers. In both instances, a customer is provided multiple voice-grade-equivalent channels over a single facility. Each equivalent channel is known as a derived channel.

Under the Commission's access charge plan,[1] the local loop costs assigned to the interstate

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[1] See MTS and WATS Market Structure, Third Report and Order, CC Docket No. 78-72, 93 F.C.C.2d 241 (1983), recon., Memorandum Opinion and Order, CC Docket No. 78-72, 97 F.C.C.2d 682 (1983), further recon., Memorandum Opinion and Order, CC Docket No. 78-72, 97 F.C.C.2d 834 (1984), aff'd. in part, National

(footnote continued on following page)

jurisdiction are recovered from end users through SLCs, and from interexchange carriers through a per-minute Carrier Common Line ("CCL") charge. As the Commission notes in the NPRM (para. 8), the SLC rate structure is designed to recover a greater proportion of local loop costs from multi-line business customers ($6.00 per line per month) than from residential and single-line business customers ($3.50 per line per month). Over time, the recovery of local loop costs through SLCs has increased, leading to a decrease in the amount recovered through CCL rates. This decline in CCL rates has contributed to a corresponding decline in basic interstate toll rates.[2]

The Commission's rules require a SLC for each communication channel between a telephone and the LEC central office.[3] A channel is defined as an "electrical path suitable for the transmission of communications between two or more points."[4] Therefore, under the

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(footnote continued from previous page)

Association of Regulatory Commissioners v. FCC, 737 F.2d 1095 (1984).

2 Basic interstate toll rates have decreased approximately 34% between 1984 and the end of 1992. NPRM, para. 9.

3 NYNEX Telephone Companies Revisions to Tariff F.C.C. No. 1, Memorandum Opinion and Order, 7 FCC Rcd 7938 (1992), aff'd, 10 FCC Rcd 2247 (1995), citing 47 C.F.R. Part 36 Glossary.

4 Id.

Commission's rules, each derived channel, as opposed to each facility, is a subscriber line subject to a SLC. The Commission seeks comment (para. 15) on how to apply SLCs to BRI and PRI ISDN service provided to residential and business customers. The primary issue is whether the SLCs should continue to be applied on a per-derived channel basis, or whether some other application will advance the Commission's twin goals of promoting the development of new technologies while maintaining CCL rates at current or reduced levels. NPRM, paras. 17-18.

SLCs SHOULD BE APPLIED TO BRI SERVICE ON A PER-FACILITY BASIS AND TO PRI SERVICE ON A PER-DERIVED CHANNEL BASIS

The Commission proposes three options for subscriber line charges for ISDN: a SLC per-facility; a SLC per-derived channel; and an intermediate option that would assess SLCs at a level between the per-facility and per-derived channel approaches. While each of the options set forth by the Commission addresses one of the two goals described above, none by itself both promotes use of new technologies and ensures that CCL charges will continue to decline. However, both goals will be met if the Commission imposes a combination of per-facility charges for residential and single-line business BRI service and per-derived channel charges for PRI service.

Under the first option (NPRM, para. 24), customers would pay a single SLC for each physical facility serving a given customer (a derived channel service connection). This option promotes the first goal -- encouraging customers to use new derived channel technology, because their costs associated with SLCs are reduced. Instead of paying for 24 derived channels for PRI service, as multi-line business customers currently do for individual trunks on a T-1 facility, a per-facility option would reduce the cost to a single SLC.[5]

However, the impact of dramatically reducing SLC revenue through this option would be to increase CCL rates. This would occur because under the existing price cap rules the shortfall in SLC revenue would be offset by higher CCL charges on IXCs. These higher charges could potentially be passed on to interexchange customers in the form of higher interstate toll rates.

The second option (NPRM, paras. 27-29), charging SLCs based on a ratio of the average LEC cost of

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5 This option would lead to different treatment for T-1 facilities and PRI facilities. T-1s would continue to be charged on a per-derived channel basis, while PRI facilities would be charged on a per-facility basis. This difference could put T-1s at a disadvantage when competing against PRI service. Under a variation of this approach, the Commission suggests (NPRM, para. 24) that an ISDN BRI customer with one copper pair would pay a single SLC and a PRI customer with two copper pairs would pay two SLCs.

providing a derived channel service to the average LEC cost of providing an ordinary local loop or T-1 facility, may result in SLC revenues that fall between those produced by per-facility charges and per-derived channel charges.[6] While this option appears to have the benefit of being cost-based, there are many unanswered issues that make it an unattractive option at this time. First, as the Commission notes (NPRM, para. 28), an extensive data gathering procedure would need to be undertaken to determine the relationship between the cost of providing ISDN and non-ISDN local loops and T-1 facilities. This would be a time consuming activity that could delay the introduction of the appropriate SLC rules as they apply to ISDN.

Second, existing separations, access and price cap rules may need to be modified if different categories of loops were created. In order to ensure that the modifications are done properly, an extensive Joint Board proceeding would be required to establish the categories

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[6] The Commission suggests (NPRM, para. 30) a second intermediate option -- reducing SLCs for derived channel connections to 50 percent of the level required by the current rules. This option should foster growth of derived channel services, but at a cost of higher CCL charges and, consequently, higher interstate toll rates, because the PRI users would be charged $69 per month for 23 channels instead of $138 per month.

of loops, perform the requisite cost studies, and establish SLCs for each category. New loop categories may need to be established as new technologies and services are developed. This would add even more complexity to a process that is already likely to be time consuming.

Therefore, in order to resolve in a timely manner the treatment of SLCs for ISDN services, the Commission should continue to use the existing loop categories, with cost differences among the various types of loops reflected in their intrastate tariffs rather than at the interstate level. The states should be responsible for establishing the different categories of loops and determining costs for each category. The Commission should retain the existing categories (single-line and multi-line business) for calculating SLCs on an interstate basis.

The Commission's third option (NPRM, para. 31) is to retain the current per-derived channel approach. This approach will continue to maintain the current level of CCL charges, but may offset that benefit by reducing growth in demand for derived channel services. Total SLC charges are higher under this approach than under others, which may lead customers to forego this new, more expensive technology, unless these charges are offset by decreases to intrastate rates.

To better promote the Commission's objectives set forth in the NPRM, AT&T proposes that multi-line business ISDN PRI users pay a SLC on each derived channel. Residential and single-line business ISDN BRI users, on the other hand, would pay one SLC because each facility uses the same copper pair as basic analog service. Consequently, residential and single-line business BRI users would then pay one SLC instead of the two they currently pay. Moreover, a per-facility approach should provide an incentive to residential and single-line business customers to upgrade to ISDN BRI and get two derived channels for one SLC, instead of being charged two SLCs if they add a separate second line, such as a "teen" line. To offset the reduction in the SLC revenues resulting from charging a single SLC to current BRI customers, AT&T proposes that the residential and single-line business SLC be increased by $.25 per facility per month.[7] AT&T's proposal thus will provide an incentive to use new technology, but will not lead to increased CCL charges.[8]

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[7] See NPRM, para. 15 ("the current caps on SLCs could be increased by $.25 per month for all subscribers.") This should not preclude LECs from requesting and receiving permission to raise their SLCs by amounts above and beyond the proposed $.25 charge.

[8] The Commission should consider eliminating CCL charges in their entirety as part of a comprehensive reform of its access charge rules. See NPRM, para. 36.

A per-channel SLC for ISDN PRI users is consistent with the Commission's current rules for these customers. Because potential ISDN PRI customers are currently paying SLC on a per-derived channel basis, this approach will not reduce SLC revenue or serve as a disincentive for customers to convert to PRI. Business ISDN PRI users are typically large companies that desire ISDN features and are currently buying these services on a per-derived channel basis. These customers typically use PRI as a substitute for existing services using a multichannel facility (such as a T-1 facility), for which they are already paying a separate SLC for each derived channel. Therefore, there is no reason to believe these customers would not be willing to pay the same SLCs to upgrade their existing service to PRI. Consequently, maintaining the current per-derived channel SLC will not erect a regulatory barrier to the development of beneficial new technologies. Moreover, the per-derived channel charge would not lead to higher CCL charges, because SLC revenues will not be reduced.

While PRI users would be charged a per-derived channel SLC, residential and single-line business BRI users would pay a per-facility SLC. This approach will promote ISDN use by residential and single-line business customers by cutting the SLC for those customers in half. Currently, BRI customers are charged two SLCs, one for charging a single SLC for that pair, these customers will pay $3.50 per facility per month instead of the $7.00 per facility per month they currently pay. As the Commission notes (para. 24), this approach should "encourage use of the derived channel technology and permit residential and business customers to take advantage of the substantial benefits of such channels . . . ," including improved access to the National Information Infrastructure.

The Commission expresses concern that a per-facility option would lead to reduced SLC revenues over time. The result of such reductions would be an increase in LEC CCL rates and a potential increase in interstate toll rates. AT&T's approach should not lead to this result. Because it is limited to residential and single-line business BRI users, the reduction in SLC revenues should not be significant. Any substantial reduction in SLC revenues would only arise if PRI users were charged on a per-facility basis. In that case, there is a potential 96% reduction in SLC revenues.[9]

To help offset any potential reduction in SLC revenues from a BRI per-facility approach, AT&T proposes that the LECs be permitted to impose a small increase, $.25 per-facility per month, on the SLC rates of all

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[9] A PRI user would pay one SLC instead of 24 SLCs under the per-facility option.

residential and single-line business lines.[10] This would lessen, or perhaps prevent, a potential reduction in SLC revenues while still providing BRI users with an incentive to use ISDN.

AT&T's proposed approach also addresses concerns raised by several BOCs that "consumers are underrepresented on the [Internet]."[11] Bell Atlantic notes that ISDN provides consumers with high-speed digital Internet access which allows for use of the Internet's features. Without a per-facility charge, Bell Atlantic argues (p. 3) "60% of the expected ISDN consumer base [will] stay with traditional telephone lines." Under AT&T's approach, this concern is eliminated, because residential and single-line business consumers would be charged on a per-facility basis.

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[10] The Commission suggested (paras. 32-34) that this type of additional charge would help prevent increases to the per-minute CCL charges.

[11] The Bell Atlantic Telephone Companies Waiver of Section 69.104 of the Commission's Rules in Connection with ISDN Service, Emergency Petition for Waiver, p. 1, filed February 10, 1995 ("Bell Atlantic Petition"). See also U S WEST Communications, Inc., Petition for Waiver of Section 69.104 of the Commission's Rules as Applied to ISDN Services, Emergency Petition for Waiver, filed April 4, 1995; and BellSouth Telecommunications Inc. Waiver of Section 69.104 of the Commission's Rules in Connection with ISDN Services, Petition for Waiver, filed April 5, 1995.

The Commission also seeks comment (NPRM, para. 36) on the need for additional changes to the way carriers can recover the interstate assignment of local loop costs and local switching or other costs that are viewed as non-traffic sensitive costs. As competition for local service begins, it is important that rates for all local exchanges services be more closely aligned with the underlying costs. The interstate portion of local loop costs, including the non-traffic sensitive costs associated with local switching ports, should be fully recovered on a flat-rate basis for subscriber line charges. Usage sensitive costs, on the other hand, should be recovered on a usage sensitive basis.

As AT&T explained in its comments in the Commission's recent Notice of Inquiry on the Universal Service Fund ("USF"), the Commission should replace all of the existing subsidy mechanisms with a more targeted approach that is funded through competitively neutral revenue surcharges.[12] The current system for promoting universal service is, as AT&T's Comments showed, fundamentally at odds with the goal of robust competition. In its comments, AT&T demonstrated that it

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[12] See Comments of AT&T, filed October 28, 1994, to Amendment of Part 36 of the Commission's Rules and Establishment of a Joint Board, CC Docket No. 80-286, Notice of Inquiry.

is possible to design a system for promoting universal service that does not impose distorted costs on telecommunications providers, and thus is also fully compatible with competition. To achieve competitive neutrality and reasonable cost, the Commission should require adherence to several basic requirements.

First, all subsidies must be removed from access charges and instead be funded out of surcharges on the bills rendered to end-user customers by all telecommunications service providers. Second, all subsidies must follow the customer, not the carrier.[13] Third, subsidies should be targeted to households that meet specific, need-based eligibility criteria.

Fourth, subsidies should be limited to a core set of basic services, such as directory assistance and Telecommunications Relay Service ("TRS"). Finally, a new USF should be created to collect and distribute the new surcharges. A neutral "third party" organization should administer this new USF and enforce the eligibility criteria, match the subsidy with the subscriber, and distribute the funds back to the carriers serving the eligible subscribers. The Commission should begin to

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[13] This requirement would not apply to small rural carriers.

design a comprehensive universal service policy that satisfies each of these basic requirements.

CONCLUSION

For the reasons stated above, the Commission should modify the existing SLC rate structure for ISDN services by charging multi-line business ISDN PRI users on a per-derived channel basis and residential and single-line business BRI users on a per-facility basis. In addition, AT&T supports a $.25 per month increase in the SLC on all residential and single-line business lines. This approach advances the Commission's goals of promoting the use of new technologies, while ensuring that interstate toll rates will not increase.

Respectfully submitted,

AT&T CORP.

By ______________________
Mark C. Rosenblum
Peter H. Jacoby
Seth S. Gross

Its Attorneys

Room 3244J1
295 North Maple Avenue
Basking Ridge, New Jersey 07920
(908) 221-3539

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